

Best Practices Review:
**Local Government
User Fees**

April 2004

Report Highlights ■

User fees make up a significant proportion of all revenue collected by local governments.

User fees for similar services vary widely.

We used a survey to identify over 500 different user fees.

We identified eight best practices for local governments to consider when establishing user fees.

Local governments have broad authority to implement user fees that reasonably cover the costs of their operations. User fees differ from taxes, which must be authorized by the State Legislature. Through a survey, we identified over 500 different user fees charged by local governments.

Local governments' total revenue from user fees was \$2.6 billion in 2001. That amount represented 21.1 percent of all local government revenue. In comparison, property tax revenue totaled \$3.1 billion and represented 24.5 percent of all local government revenue.

As directed by s. 13.94(8), Wis. Stats., we completed a best practices review that focused on the extent to which local governments rely on user fees to fulfill government functions. To complete this review we:

- surveyed all counties and cities, as well as villages with populations greater than 2,500 and towns with populations greater than 5,000, to determine how user fees are established and collected and how they manage fee revenue;
- analyzed data that 1,922 local governments provided to the Department of Revenue, to determine the extent to which user fees are relied on as a revenue source;
- reviewed Wisconsin Statutes governing the type and amount of user fees; and
- analyzed fee schedules in order to determine both the types of fees imposed by local governments and the range of fees charged.

Key Facts and Findings

In 2001, user fee revenue totaled \$2.6 billion, or 21.1 percent of all local government revenue.

Local governments have authority to set reasonable fees.

Wide variation in fees indicates local governments should regularly review the fees they charge.

Local governments can require developers to pay fees to cover capital costs associated with growth.

Local governments should offer a variety of payment options.

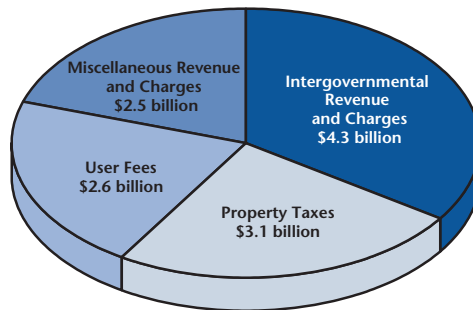
Innovative fee processing practices can lead to cost savings.

User Fee Revenue

We considered user fees in three categories:

- fees that fund necessary services, such as for utilities;
- fees that fund services that add to the quality of life, such as for parks and recreation; and
- fees that fund regulatory and administrative processes, such as for licenses and permits.

2001 was the most recent period for which data were available during the time of our review. In 2001, the \$2.6 billion in user fees collected by local governments represented 21.1 percent of their revenue from all sources. Local governments' total revenue from all sources was \$12.5 billion in 2001.



Cities had the highest percentage of revenue from user fees. In 2001, cities earned more of their revenue from user fees than from property taxes. Among all local governments, property taxes accounted for approximately one-quarter of total revenue.

Between 1997 and 2001, the percentage of revenue local governments received from user fees declined slightly, from 21.4 percent to 21.1 percent. However, towns' revenue from user fees increased by 38.9 percent, which was more than the increases for all other types of local government.

Nearly one-half of county user fee revenue was earned by county-operated nursing homes and human services departments. This is to be expected, given the types of services provided by counties.

The largest source of city user fees was utilities, while the largest source of village user fees was sewage services. Licenses and permits accounted for the largest percentage of towns' revenue from user fees.

Variation in Fee Types

Among the 500 types of fees we identified through a survey and discussions with local government officials were:

- fees for utilities and necessary services;
- charges for the use of government-owned facilities such as community centers, meeting spaces and park shelters;
- fees for recreation activities; and
- fees that individuals and businesses pay for licenses and permits.

Approximately one-half of the 249 cities, counties, villages, and towns that responded to our survey indicated that they have set a total of 275 new fees over the course of the past three years. More than 38 percent of communities responding to our survey indicated that they plan to implement new fees in the next three years.

Variation in Fee Amounts

While 63.5 percent of local governments indicated that they review their fees annually, some do so less frequently. There is wide variation in fee amounts as well as in the types of fees charged by local governments.

Although some user fees are set by statute, most are set by local governments. 2003 Wisconsin Act 134 provides that fees imposed by local governments, “shall bear a reasonable relationship to the service for which the fee is imposed.”

To assess the different amounts communities may charge for common services, we compared the cost of building permits for constructing an average sized single-family home. We found that among the five cities and six villages submitting information, the cost of building permits ranged from \$494 to \$2,560 for cities and from \$818 to \$4,714 for villages.

Many communities charge developers fees to help fund new infrastructure costs associated with new subdivisions, such as costs for

roads and sewers. Local governments can impose two types of fees for these costs: development fees and impact fees.

Both are similar in intent. The fees developers can be assessed in exchange for land development permits have been upheld by the courts as a reasonable exercise of local government authority.

Impact fees are similar to development fees but are restricted by state statutes for a limited number of infrastructure costs.

Revenue Processing

User fee management and collection practices vary, but nearly all local governments responding to our survey indicated that they offer both cash and check payment options.

Fewer than one-half indicated that they offer on-line payment options, although we learned in a previous best practices review of local e-government services that this practice can lead to increased revenue collections.

Some local governments take steps to develop secure fee collection practices. These include:

- making daily deposits of cash and check payments;
- having at least two individuals responsible for handling and depositing payments;

- using software to record cash payments; and
- conducting at least periodic audits of payments.

In addition, some local governments have realized cost savings by using a private-sector service provider to collect and process fees.

Other unique or innovative practices that have resulted in increased efficiency include using cash register software to link transactions with the municipal financial system, and using barcodes on utility bills and tax forms so that payments can be automatically entered into the local government’s computer system.

A complete list of these innovative practices is included in the report.

Some local governments offer credit card payment as an option for user fee payments. The fees that credit card companies charge for these transactions vary by as much as 3 percent per charge. Many of the local governments pay these processing costs. Others pass the charge on to those who pay user fees with credit cards.

Best Practices

Our suggestions for establishing user fees and managing the revenue are that it is a best practice for local governments to:

- review all services, considering which could be reasonably funded through user fees (*p. 22*);

- ☑ regularly review the user fees charged (p. 26);
- ☑ determine both the direct and indirect costs associated with the service (p. 31);
- ☑ periodically review the actual costs for the regulation and inspection of construction and set building permit fees accordingly (p. 33);
- ☑ make a variety of user fee payment options available to users (p. 38);
- ☑ negotiate with credit card companies for low rates for credit card transaction fees (p. 40);
- ☑ when practical, ensure the security of fees and maximize interest earnings by making daily deposits for fee payments (p. 43); and
- ☑ develop measures to ensure the secure handling of cash payments and maintain separation of duties (p. 45).

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Additional Information

For a copy of this best practices report ([04-0UserFees](#)), call (608) 266-2818 or visit our Web site:



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Address questions regarding this report to:

[Don Bezruki](#)
(608) 266-2818

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Legislative Audit Bureau

22 East Mifflin Street
Suite 500
Madison, WI 53703
(608) 266-2818

Janice Mueller
State Auditor